

Program Close Out

- PURPOSE: To specify the provisions and procedures for program close out.
- SCOPE: Institutions participating in the Child and Adult Care Food Program (CACFP).
- DESCRIPTION: Close out costs occur when an institution ceases CACFP operations. The OMB Circulars, Federal Acquisition Regulations and the Department's 3016 and 3019 regulations all provide for the payment of necessary and reasonable close out costs.

Whether the institution ceases participation voluntarily - terminates for convenience - or involuntarily ceases participation -terminated for cause - allowable close out costs can result. Because allowable close out costs are eligible for Federal funding above the regular CACFP funding limits, the State Agency and the institution must make every effort to minimize CACFP close out costs. Because of the unique funding situation specific prior written approval is required for all close out costs.

Allowable costs include:

1. Costs for transferring equipment and supplies with a remaining Federal interest to the State Agency or other Child Nutrition Program participant;
2. The CACFP share of termination fees for unexpired Program space and equipment leases;
3. Reasonable costs for storage, transportation, protection and disposition of CACFP records; and
4. The necessary and reasonable costs for accounting, clerical and administrative salary and benefit resulting from completing CACFP close-out activities such as:
Notifying sponsored facilities, preparing a final reimbursement claim, and issuing final payments to sponsored facilities

Unallowable costs include:

1. All non-CACFP costs;
2. Costs for items that the institution can use in its other activities;
3. The loss of corporate goodwill, such as a negative impact on a business' reputation or name recognition;
4. Cost for losses on the disposal of corporate owned assets;
5. Estimated costs; and
6. All costs resulting from the negligent or willful failure of an institution to discontinue incurring such costs.

The Instruction provides the following procedures for close out costs:

1. Notifying the institution of the availability of close out costs.
2. This notice should be provided promptly after the institution notifies the State Agency that it is voluntarily ceasing CACFP participation.
3. When the termination is for cause, this information should be included in the State Agency's termination notice. This is the notice that is issued after the institution has been provided a notice of intent to terminate, offered a fair hearing and either the Hearing official has upheld the State Agency's termination action or the institution has failed to file an appeal.

The close out cost information in this notice must state:

1. Only necessary and reasonable costs for close out activities that cannot reasonably be avoided are allowable.
2. All other costs incurred after termination are not allowable.
3. Termination does not affect the right of the State Agency and FNS to disallow costs and recover funds on the basis of a later audit or review.
4. Termination does not affect the institution's obligation to return any funds due as a result of later refunds, corrections or other transactions.
5. All close out costs will require specific prior written approval by the State Agency.
6. The method the institution must use to request specific prior written approval.

The State Agency requires the institution to submit for specific written prior approval, a list that identifies close out costs by function, with a written explanation of the function. Institutions will also be required to submit a close out cost budget.

The notice to the institution must also explain that close out costs must be reported net of all applicable credits, rebates, etc. and that any close out costs due to the institution will be offset by any outstanding over claims.

The notice must also state the requirement that the institution must liquidate all CACFP and close out cost obligations within 90 calendar days after termination of CACFP participation. This reporting date can be extended or shortened. However, any extension requires approval of your FNS Regional Office; and the method the State Agency will use to pay close out costs including specific requirements regarding the timing of the payment.

The preferred method to fund close out costs is by reimbursement, through which the close out costs are paid after the State Agency receives documentation that the institution has liquidated all CACFP obligations, including all close out costs; however advance funding can be made available, but only with the specific prior written approval of FNS Regional Office when the State Agency determines advance payments are necessary to ensure protection of CACFP funded assets and proper payment of CACFP funds due to unaffiliated sponsored facilities. Advance funding for close out costs is not permitted when the institution has an outstanding over claim.

Regardless of whether advance funds or a reimbursement method is used to pay close out costs, the amount paid to the institution must be offset against outstanding over claims. For independent centers and sponsors of affiliated centers, all outstanding over claims can be offset by allowable close out costs. However to protect funding to unaffiliated facilities, the following steps must be taken. For sponsors of unaffiliated centers, any over claims for administrative costs up to the approved administrative cost funding recovery can be offset against close out costs. Any close out payments for the unaffiliated centers cannot be reduced for sponsor administrative debts. Close out cost payments for sponsors of day care homes may only be offset by outstanding administrative cost over claims; and finally, while the cost in closing out an individual facility is an allowable administrative expense, sponsors are not eligible to receive additional funding in excess of the institution's maximum earned reimbursement.